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Securities and Exchange Commission
WASHINGTON, D.C. 20549

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FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

L92-220

For Quarter ended May 31, 1992 Commission File No. 0-11488

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Transition period from _____ to _____

PENWEST, LTD.

(Exact name of registrant as specified in its charter)

Delaware	91-1221360
(State of Incorporation)	(I.R.S. Employer Identification No.)
777-108th Avenue N.E., Suite 2390, Bellevue, WA	98004-5193
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number (206) 462-6000

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Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 1992.

Class	Outstanding
Common stock, par value $1.00	8,540,474

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PENWEST, LTD. AND SUBSIDIARIES

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PENWEST, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	May 31, 1992 (Unaudited)	August 31, 1991
ASSETS		
Current assets:		
Cash	$ 551	$ 976
Investments	20,102	28,815
Receivables	13,416	11,821
Inventories:		
Raw materials	2,766	2,372
Work in progress	519	414
Finished goods	5,755	4,522
	9,040	7,308
Other current assets	4,105	3,166
Total current assets	47,214	52,086
Property, plant and equipment, net	68,125	61,223
Deferred tax asset	3,242	
Other non-current assets	9,856	8,155
Total assets	$128,437	$121,464
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,763	$ 9,258
Current portion of long-term debt	540	300
Accrued liabilities	8,832	8,116
Total current liabilities	17,135	17,674
Long-term debt	31,085	31,550
Other post-retirement benefits	9,535	
Deferred income taxes and other	10,550	12,120
Shareholders' equity:		
Common stock	8,540	8,501
Additional paid-in capital	12,329	12,055
Retained earnings	67,583	67,109
Treasury stock	(22,965)	(21,720)
Note receivable from Employee Stock Ownership Plan	(5,355)	(5,825)
Total shareholders' equity	60,132	60,120
Total liabilities and shareholders' equity	$128,437	$121,464

See accompanying notes to condensed consolidated financial statements.

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PENWEST, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)
(Unaudited)

	Three Months Ended May 31		Nine Months Ended May 31	
	1992	1991	1992	1991
Sales	$ 31,652	$ 29,215	$ 92,525	$ 81,058
Cost of sales	23,489	20,112	67,247	57,121
Gross margin	8,163	9,103	25,278	23,937
Operating expenses	5,836	5,477	17,707	14,207
Income from operations	2,327	3,626	7,571	9,730
Investment income	510	602	1,573	1,990
Interest expense and other	(721)	(668)	(1,758)	(2,030)
Income before taxes and cumulative effect of accounting changes	2,116	3,560	7,386	9,690
Income taxes	472	1,130	1,816	2,911
Income before cumulative effect of accounting changes	1,644	2,430	5,570	6,779
Cumulative effect of change in accounting:				
Other post-retirement benefits (less deferred income tax benefit of $3,063)			(5,947)	
Accounting for income taxes			1,560	
			(4,387)	
Net income	$ 1,644	$ 2,430	$ 1,183	$ 6,779
Weighted average common shares and equivalents outstanding	7,489,820	7,592,529	7,467,027	7,558,454
Earnings before cumulative effect of accounting changes	$0.22	$0.32	$0.75	$0.90
Cumulative effect of accounting changes			(0.59)	
Earnings per common share	$0.22	$0.32	$0.16	$0.90
Dividends declared per share	$0.05		$0.10	

See accompanying notes to condensed consolidated financial statements.

PENWEST, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended May 31	
	1992	1991
Operating Activities:		
Net income	$ 1,183	$ 6,779
Adjustments to reconcile income from operations to net cash from operations:		
Depreciation and amortization	5,964	5,104
Deferred income taxes	(960)	(240)
Cumulative accounting changes	4,387	
Foreign currency (gain) loss	(179)	
Change in assets and liabilities:		
Receivables	(1,595)	487
Inventories	(1,732)	(1,068)
Accounts payable and other	(1,150)	(220)
Net cash from operating activities	5,909	10,842
Investing Activities:		
Additions to plant and equipment	(12,118)	(6,928)
Purchase of Edward Mendell Co.		(8,080)
Other	(76)	(89)
Net cash from investing activities	(12,194)	(15,097)
Financing Activities:		
Payments on long-term debt	(550)	(1,225)
Proceeds of long-term debt	325	5,500
Purchase of treasury stock	(1,245)	
Exercise of stock options	312	25
Purchase of officers' life insurance	(1,341)	(1,342)
Payment of dividend	(354)	
Net cash from (used by) financing activities	(2,853)	2,958
Net increase (decrease) in cash and equivalents	(9,138)	(1,297)
Cash and equivalents at beginning of period	29,791	31,299
Cash and equivalents at end of period	$ 20,653	$ 30,002

See accompanying notes to condensed consolidated financial statements.

PENWEST, LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month period ended May 31, 1992 are not necessarily indicative of the results that may be expected for the year ending August 31, 1992. For further information, refer to the consolidated financial statements and footnotes thereto included in PENWEST's annual report on Form 10-K for the fiscal year ended August 31, 1991.

2. ***Income Taxes***

In the third quarter 1992, the Company adopted FASB Statement No. 109 "Accounting for Income Taxes", changing to the liability method of accounting for deferred income taxes effective September 1, 1991.

The Company restated the fiscal year 1992 first quarter income statement to record a benefit of $1,560 ($0.21 per share) as the cumulative effect of an accounting change at that date. The impact on the second and third quarter's income is not significant.

The effective tax rate was 22.3% compared to the statutory rate of 34%. The effective rate is lower than the statutory rate due to tax-advantaged investment income and foreign tax benefit.

3. ***Other Post-Retirement Plans***

In the third quarter 1992, the Company adopted FASB Statement No. 106 "Employers' Accounting for Post-Retirement Benefits Other Than Pensions", changing to the accrual method of accounting for these benefits effective September 1, 1991. Prior to 1991, post-retirement benefit expense was recognized when claims were paid.

The Company restated the fiscal year 1992 first quarter income statement to record a pre-tax charge of $9,010 ($5,947 after taxes or $0.80 per share) as the cumulative effect of an accounting change at that date. This change also increased nine months ended May 31, 1992, pre-tax post-retirement benefit expense by $525. See Note 4 for the impact on the first and second quarter of adopting FAS 106.

Post-retirement benefit expense was $825 and $300 for the nine months ended May 31, 1992 and 1991 respectively.

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The following table sets forth the plan's funded status as of May 31, 1992.

Accumulated post-retirement benefit obligation:	
Retirees	$5,397
Fully eligible active plan participants	1,352
Other acuive plan participants	2,786
	9,535
Plan assets at fair value	0
Accumulated post-retirement benefit obligation in excess of plan assets	9,535
Unrecognized net (gain) or loss	0
Accrued post-retirement benefit obligation	$9,535

Net periodic post-retirement benefit costs include the following components:

	Nine Months Ended May 31, 1992
Service cost — benefits earned during the period	$218
Interest cost on accumulated post-retirement benefit obligations	607
	$825

Future benefit costs were estimated assuming medical costs would increase at a 17% annual rate for fiscal 1992 and 1993, then beginning in fiscal 1994, decreasing to an annual rate of 6.5% ratably over the next 8 years and then remaining at a 6.5% annual rate thereafter. A 1% increase in this annual trend rate would have increased the accumulated post-retirement benefit obligation at May 31, 1992, by $1.2 million, with an increase of $0.25 million of the annual 1992 post-retirement benefit expense. The weighted average discount rate used to estimate the accumulated post-retirement obligation was 8.14%.

4. *Restated Quarterly Financial Data*

(Dollars in thousands except per share data)
(Unaudited)

	Three Months Ended November 30, 1991 (restated)	Three Months Ended February 29, 1992 (restated)
Sales	$29,349	$31,524
Gross margin	8,208	8,907
Income from operations	2,526	2,778
Income before taxes and cumulative effect of accounting changes	2,589	2,708
Income taxes	682	662
Earnings before cumulative effect of accounting changes	1,907 (1)	2,046 (1)
Cumulative effect or change in accounting for post-retirement benefits less deferred income tax of $3,063)	(5,947)	
Cumulative effect of change in accounting for income taxes	1,560	
Net income (loss)	$ (2,480)	$ 2,046
Weighted average common shares and equivalents outstanding	7,439,998	7,460,922
Earnings before cumulative effect of accounting changes	$ 0.26	$ 0.27
Cumulative effect of accounting changes	(.59)	
Earnings (loss) per common share	$(0.33)	$ 0.27
Dividends declared per share		$ 0.05

(1) Additional expense related to the adoption of FAS 106 of approximately $175 per quarter ($115 after taxes or approximately $0.02 per share, per quarter) were recorded in fiscal 1992.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity

PENWEST continues to maintain a highly liquid position with short-term investments accounting for 16% of total assets at quarter end. Long-term debt consists of borrowings under an unsecured term debt agreement ($22 million), a mortgage ($4.1 million) and an unsecured note ($5 million). Fifteen million of the unsecured revolving line of credit was unused and available at May 31, 1992.

Cash flow from operations for the nine months ended May 31, 1992 was $5.9 million compared to $10.8 million in the same period last year. Cash flow for the period has declined compared to the same period a year ago primarily due to lower earnings, an increase in accounts receivable and a slight increase in inventory.

Working capital was $30 million at May 31, 1992, a decrease of $4 million from August 31, 1992. The decrease is primarily reflected by the reduction in short-term investments ($9 million) used to fund capital expenditures.

The Board of Directors declared a $0.05 per share dividend which was paid on June 8, 1992, to shareholders of record as of May 22, 1992.

During June 1992, the Company renewed it's $22 million term debt agreement. As part of the renewal process the term debt became unsecured. In addition, the Company secured a commitment for a $20 million private placement of debt during June, 1992. Funding of the debt is expected no earlier than the first quarter of fiscal 1993. The proceeds will be used to fund future capital expenditures and refinance approximately $5 million of existing debt.

Capital Resources

Additions to property, plant and equipment during the nine months ended May 31, 1992, were $12.1 million. Significant expenditures were made to the starch finishing capacity (completed in November 1991), the corn grind expansion (completed in February 1992), and the new microcrystalline cellulose (MCC) plant. The starch finishing capacity and corn grind expansion projects will enable PENWEST to meet the growing demand for specialty ethylated starches.

Financing for working capital changes and property additions were funded from operations, cash resources and borrowings.

Results of Operations

Net income was $1,644,000, or $0.22 per share for the third quarter, compared to $2,430,000, or $0.32 per share for the year earlier period. Net income before cumulative effect of accounting changes for the nine months was $5,570,000 or $0.75 per share, compared to $6,779,000 or $0.90 per share for the same period a year ago.

Sales increased in the third quarter and the first nine months of fiscal year 1992 to $31,652,000 and $92,525,000, representing a 8% and 14% change respectively, from the same period last year. The increases were generated through volume increases, led by specialty ethylated starches and the impact of the purchase of Edward Mendell Co., Inc. in March of 1991. The gross margin for the nine month period decreased to 27.3% compared to 29.5% last year. The capacity constraints as previously discussed under capital resources, higher net corn costs,

utility costs, repair and maintenance costs and operating expenses, limited operating income growth.

Gross margins for the quarter were affected by orders from three new customers that were expected in the third quarter but which were delayed into the late third and early fourth quarter. Customer inventory adjustments, greater depreciation expense and higher raw materials costs also played a role in the decline.

Operating expenses, in the third quarter and first nine months, rose $359,000 and $3,500,000, respectively. The changes relate mostly to the addition of Mendell's operating expenses and secondly with costs associated with building an infrastructure for PENWEST FOODS and Mendell.

Interest expense and other for the third quarter and first nine months of fiscal 1992 was $721,000 and $1,758,000, respectively compared to $668,000 and $2,030,000, respectively for the same period last year. The decrease in the nine month period is the result of lower interest rates in the current year.

Investment income from earnings on short-term investments for the third quarter and first nine months of fiscal 1992 was $510,000, and $1,573,000, respectively compared to $602,000 and $1,990,000, respectively for the same periods last year. The decline is directly related to a reduction in the yield on a smaller investment portfolio. The annualized equivalent pre-tax return was approximately 9% for the quarter.

PART II - OTHER INFORMATION

Item 4 Submission of Matters to a Vote of Security Holders.

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

Item 6 Exhibits and Reports on Form 8-K.

(a) Exhibit 11 - Statement re: Computation of earnings per share

(b) No reports on Form 8-K were filed during the quarter for which this report is filed.

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Exhibit 11

PENWEST, LTD. AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER SHARE

	Quarter Ended May 31, 1992	Nine Months Ended May 31, 1992
PRIMARY:		
Net income	$1,644,000	$1,183,000
Weighted average number of shares outstanding	7,232,886	7,257,167
Assumed exercise of options	409,398	389,383
Subtract number of hypothetical shares purchased with option proceeds based on average price	(152,464)	(179,523)
Adjusted shares outstanding	7,489,820	7,467,027
Earnings per share	$0.22	$0.16
FULLY DILUTED:		
Net income	$1,644,000	$1,183,000
Weighted average number of shares outstanding	7,232,886	7,257,167
Assumed exercise of options	409,398	389,383
Subtract number of hypothetical shares purchased with option proceeds based on higher of average or period end price	(152,464)	(179,523)
Adjusted shares outstanding	7,489,820	7,467,027
Earnings per share	$0.22	$0.16

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PENWEST, LTD.
(Registrant)

7-15-92
Date

Tod R. Hamachek
President and
Chief Executive Officer

7-15-92
Date

Jeffrey T. Cook
Vice President, Finance